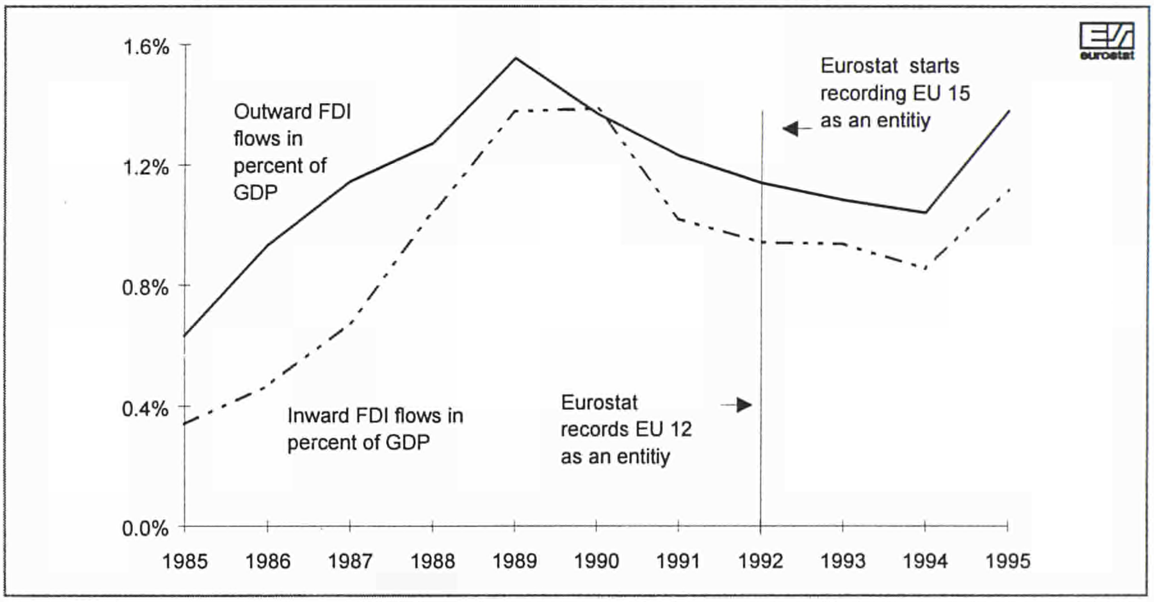
STATISTICS IN FOCUS
Economy and finance
1997 □ 18

ISSN 1024-4298

European Union Direct Investment Flows
Ratios to GDP

Foreign direct investment (FDI) statistics give information on one of the major aspects of globalisation. FDI (for definition see box on page 4) is a supplement or an alternative to cross border trade in goods and services. Eurostat maintains a FDI data base that comprises harmonised and thus comparable data on inward and outward FDI flows for the European Union, its Member States, the United States and Japan. It gives the geographical breakdown for the three FDI components: equity capital, other capital and reinvested earnings. For the sum of equity and other capital it provides users also with detailed data by sector of activity. The results for the FDI flows in equity and other capital for 1995 and the years before are put into the perspective of the size of the economies hereafter, by using their ratios to GDP.

Graph 1: Ratio of total outward and inward FDI flows in percent of GDP for the EU 1985 - 1995



Both EU inward and outward FDI flows in percent of GDP rose steadily between 1985 and 1988 before peaking in 1989 and 1990 respectively (table 1). This trend was subsequently reversed and a less pronounced fall in both ratios until the end of 1994 was observed. However, in 1995 they almost reclimbed the summits reached in 1989/90. The ratio of inward FDI flows to GDP and outward FDI flows to GDP followed a very similar evolution pattern over the period depicted in graph 1. Outward FDI flows to GDP stood slightly higher than inward FDI flows to GDP throughout the period, the only exception being 1990, when they were almost identical.

Manuscript completed on = 20.05.1997

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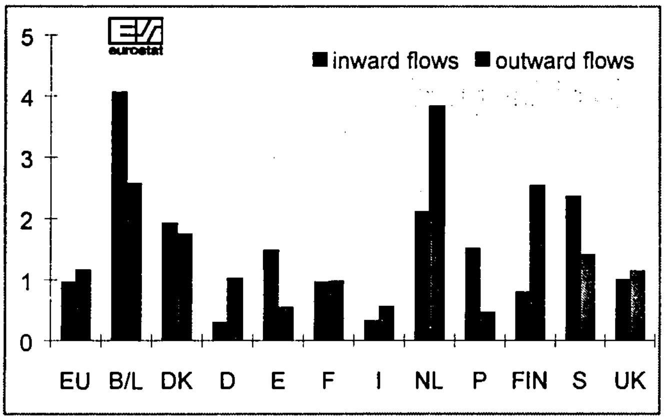
Price (excl. VAT) in Luxembourg:Subscription 'Statistics in focus' of all themes: ECU 310
Subscription 'Statistics in focus' of Theme 2 'Economy and Finance': ECU 85
Single copy: ECU 6

Catalogue number: CA-NJ-97-018-EN-C

Graph 2: Average ratios 1992-1995: Inward and outward FDI flows / GDP (in percent)

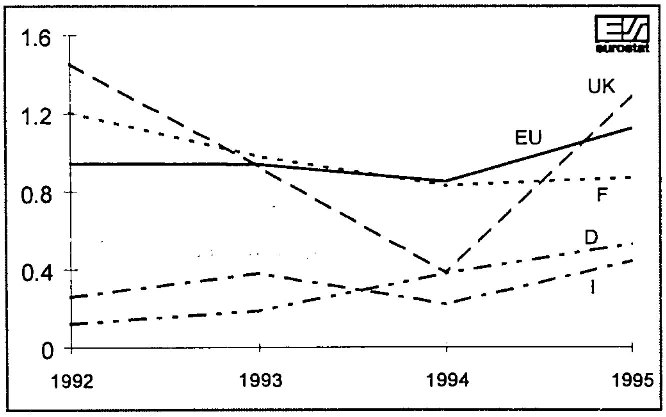


Average 1992 - 1995 FDI to GDP ratios for the European Union (graph 2) and for its Member States varied between a minimum of 0,3% (inward FDI flows/GDP for Germany) and a maximum of 4,1% (inward FDI flows/GDP for Belgium/Luxembourg).

The Netherlands and Belgium/Luxembourg featured the most pronounced set of ratios. For the former, the average outward flows to GDP ratio was the highest within the EU, whereas for the latter it was the average inflows to GDP ratio. Both Denmark and Sweden also recorded comparatively strong average ratios, which were above that of the EU's.

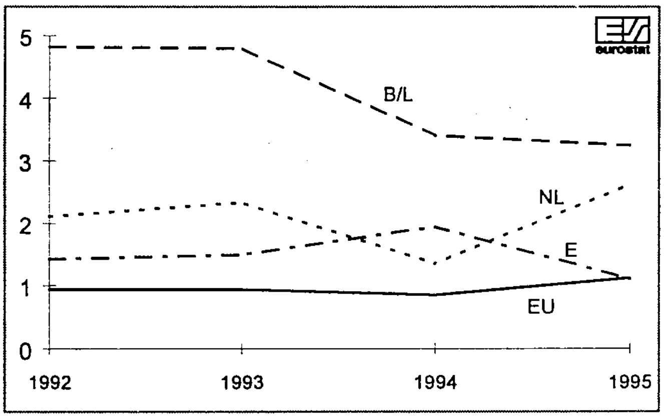
Spain and Portugal showed a strong inward FDI flows to GDP ratio above the EU average ratio but an outward FDI flows to GDP ratio below the EU's. In the case of Germany and Finland, it was the outward flows to GDP ratio that was dominant (Finland having the third highest ratio in the EU). Nevertheless, both ratios for Germany still remained below the EU benchmarks. The United Kingdom's and France's inward and outward FDI flows in relation to their GDP came very close those of the EU as a whole.

Graph 3: Inward FDI flows in percent of GDP Germany - France - Italy - United Kingdom



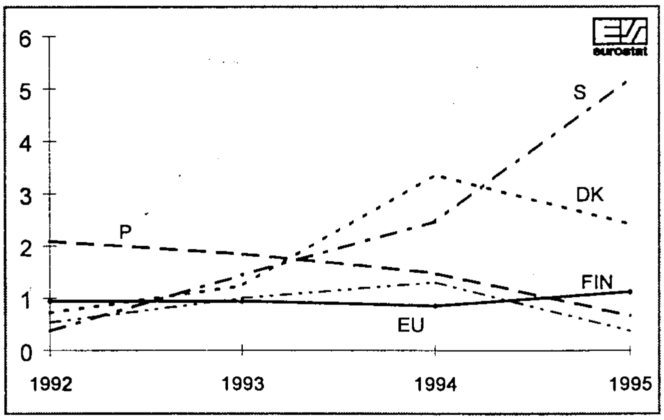
Italy and Germany remained well below the EU ratio of inward FDI flows to GDP between 1992 - 1995 (graph 3). However, for both countries the ratio grew modestly (a slight decline being the exception for Italy in 1994) during the period. Both the United Kingdom and France featured ratios slightly above the EU ratio in 1992, but observed a decline to below this benchmark by the end of 1994. In 1995 both trends were reversed, whereby the United Kingdom's ratio rose again above the EU's but below the position held in 1992. France's ratio increased only marginally, remaining below the EU benchmark ratio.

Graph 4: Inward FDI flows in percent of GDP Belgium/Luxembourg - Netherlands - Spain



Belgium/Luxembourg, the Netherlands and Spain all recorded inward FDI flows to GDP ratios above the EU's position (graph 4). Belgium/Luxembourg had the highest overall ratio of all EU Member States between 1992 and 1994 and coming only second to Sweden in 1995. The Netherlands observed a slight increase and Spain a slight decrease by 1995.

Graph 5: Inward FDI flows in percent of GDP Denmark - Sweden - Portugal - Finland



Denmark, Sweden and Finland featured inward FDI flows to GDP ratios below the EU average in 1992 (graph 5). However, they strongly increased their ratios up until the end of 1994 (with Denmark having the second largest ratio in 1994), surpassing the EU ratio in 1993. This trend continued even more strongly for Sweden in 1995, whereas Denmark's and Finland's ratio slightly dropped. It remained above the EU

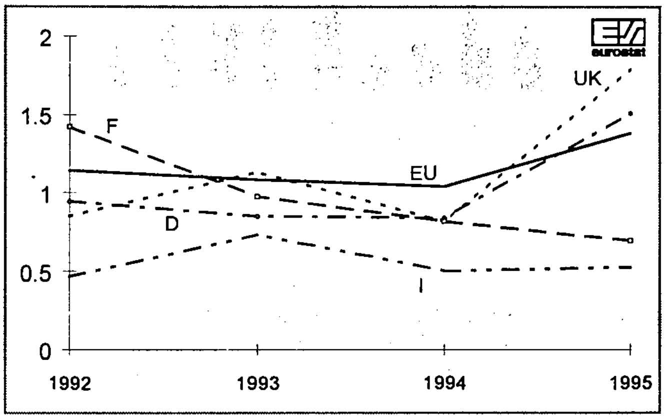
Table 1: Ratio of total FDI flows in percent of GDP for the EU 1985 - 1995

EU 12	85	86	87	88	89	90	91
In FDI/GDP	0.3%	0.5%	0.7%	1.0%	1.4%	1.4%	1.0%
Out FDI/GDP	0.6%	0.9%	1.1%	1.3%	1.6%	1.4%	1.2%

EU 15	92	93	94	95
In FDI/GDP	0.9%	0.9%	0.9%	1.1%
Out FDI/GDP	1.1%	1.1%	1.0%	1.4%

average in the case of Denmark and fell below in the case of Finland. One may notice that all three countries had very similar ratios in 1992 which had moved apart by the end of 1995. Portugal observed a steady and shallow decline in its ratio, from above the EU ratio (until 1994) to below at the end of 1995.

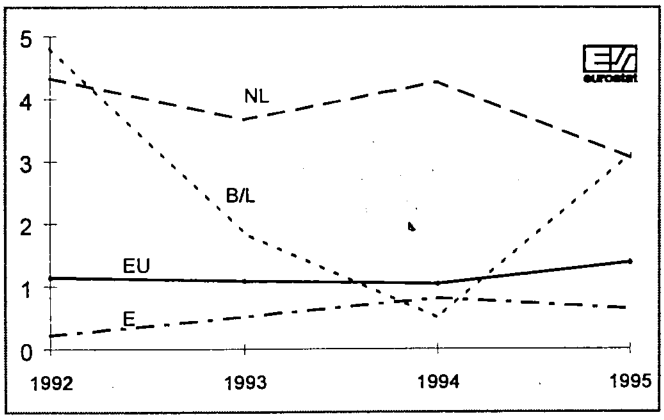
Graph 6: Outward FDI flows in percent of GDP Germany - France - Italy - United Kingdom



Germany and Italy's outward FDI flows in percent of their respective GDP changed relatively modestly while remaining below the EU ratio between 1992-1994 (graph 6). Italy showed only a slightly improved ratio in 1995, whereas Germany underwent an upturn that brought its ratio to above the EU average in 1995. The United Kingdom observed a ratio trend similar to Italy's until the end of 1994, but at an 0.3 - 0.4 % point higher level. However, the ratio increased to above the EU average in 1995.

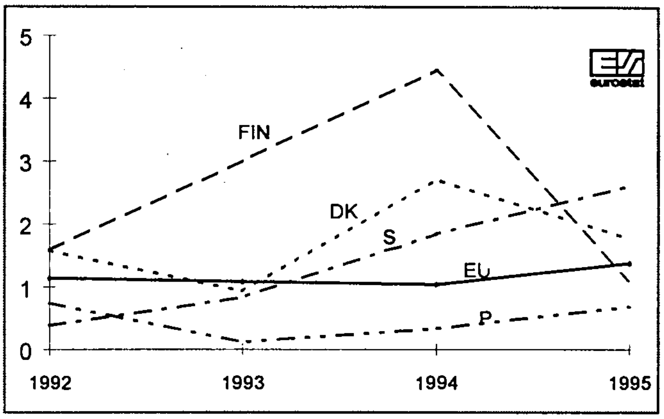
France saw a continued but decelerated fall in its ratio between 1992 -1995, from above the EU average in 1992 to below in 1993 and remaining there through to 1995.

Graph 7: Outward FDI flows in percent of GDP Belgium/Luxembourg - Netherlands - Spain



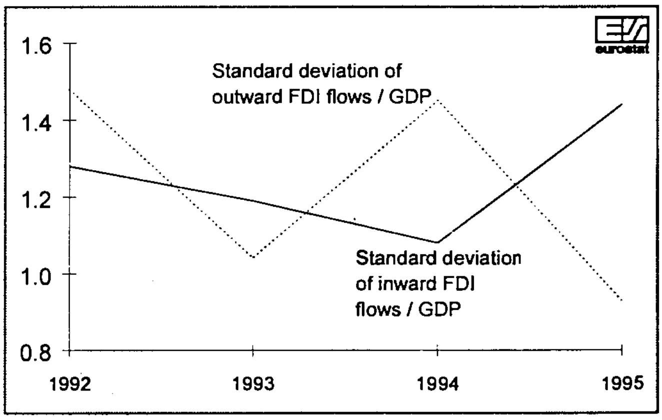
Belgium/Luxembourg and the Netherlands recorded the highest outward FDI flows in percent of GDP in 1992 (graph 7) in the European Union. However, the ratio had fallen modestly for the Netherlands by 1995. Belgium/Luxembourg reached approximately thesame value in 1995, but it saw a strong fall in its ratio in 1993 and 1994 (below the EU ratio in 1994). Spain's ratio remained below the average EU ratio throughout the period.

Graph 8: Outward FDI flows in percent of GDP Denmark - Sweden - Portugal - Finland



Finland observed a strong increase in its outward FDI flows to GDP ratio from 1992 to 1994 (graph 8), coming first in the overall EU comparison in 1994. However, in 1995 this was followed by a cave in to below the EU average ratio. Sweden saw a comparatively strong and steady increase of its ratio from below the EU average ratio to above. Denmark recorded a slight drop by 1993, rising above the EU ratio in 1994 (third highest overall ratio in 1994), before decreasing again in 1995. Portugal's ratio incresased since 1994, but still remained below the EU ratio in 1995.

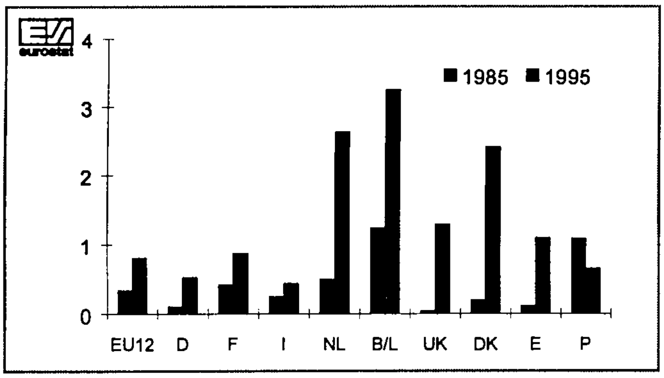
Graph 9: Standard deviation of FDI flows to GDP ratios among EU Members States



Taking the standard deviation as a measure of how widely values are dispersed from the mean value, one may notice that the standard deviation of the outward FDI flows to GDP ratios of the EU Member States fluctuated between 1992 and 1995 (graph 9). A slight decrease in the dispersion (i.e. a tendency towards homogeneity) of the outward FDI flows to GDP ratios may be observed. The standard deviation of the inward FDI flows to GDP ratios of the EU Member States fell between 1992 and 1994, but increased again the year after. The standard deviation of inward flows to GDP was more heterogeneous in 1995 than in 1994, whereas the standard deviation of outward flows to GDP was more heterogeneous in 1994 than in 1995.

In general, when taking both measures over the period as a whole, a strong heterogeneity was prevalent.

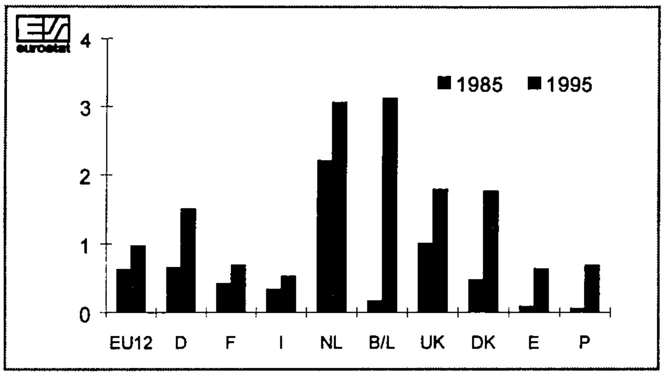
Graph 10: Comparison between 1985 and 1995: Inward FDI flows to GDP (in percent)



(note that EU12 figures are available up to 1994)

When comparing (graph 10) inward FDI flows to GDP ratios for the year 1985 and 1995, one notices a strong increase in the ratios for all countries displayed - with the exception of Portugal that saw a fall in its ratio in 1995 compared to 1985. The United Kingdom, Denmark and Spain strongly increased their respective ratios, followed by the Netherlands and Belgium/Luxembourg. For Germany, France and Italy this increase was less remarkable and very close to that of the EU12 in 1994.

Graph 11: Comparison between 1985 and 1995: Outward FDI flows to GDP (in percent)



(note that EU12 figures are available up to 1994)

When comparing (graph 11) outward FDI flows to GDP ratios for the year 1985 and 1995, one can see a strong increase in the ratios for all countries displayed. This holds in particular true for Belgium/Luxembourg (that by far augmented its ratio most strongly), followed by Spain, Portugal and Denmark. Germany, France, the United Kingdom and Italy also increased their respective ratios, but not on the scale the above mentioned countries did. The Netherlands showed a less strong increase, but featured in both years a very strong ratio.

Table 2: Ratio inward FDI flows / GDP (in percent)

	1992	1993	1994	1995	92-95
EU	0.9	0.9	0.9	1.1	1.0
B/L	4.8	4.8	3.4	3.2	4.1
DK	0.7	1.2	3.4	2.4	1.9
D	0.1	0.2	0.4	0.5	0.3
EL	:	:	:	:	:
E	1.4	1.5	2.0	1.1	1.5
F	1.2	1.0	0.8	0.9	1.0
IRL	:	:	:	:	:
I	0.3	0.4	0.2	0.4	0.3
NL	2.1	2.3	1.4	2.6	2.1
A	:	:	:	:	:
P	2.1	1.8	1.5	0.7	1.5
FIN	0.5	1.0	1.3	0.4	0.8
S	0.4	1.4	2.5	5.2	2.4
UK	1.5	0.9	0.4	1.3	1.0

Table 3: Ratio outward FDI flows / GDP (in percent)

	1992	1993	1994	1995	92-95
EU	1.1	1.1	1.0	1.4	1.2
B/L	4.8	1.8	0.5	3.1	2.6
DK	1.6	0.9	2.7	1.8	1.7
D	0.9	0.9	0.8	1.5	1.0
EL	:	:	:	:	:
E	0.2	0.5	0.8	0.6	0.5
F	1.4	1.0	0.8	0.7	1.0
IRL	:	:	:	:	:
I	0.5	0.7	0.5	0.5	0.6
NL	4.3	3.7	4.3	3.1	3.8
A	:	:	:	:	:
P	0.7	0.1	0.3	0.7	0.5
FIN	1.6	3.0	4.5	1.1	2.5
S	0.4	0.8	1.8	2.6	1.4
UK	0.8	1.1	0.8	1.8	1.1

Foreign direct investment (FDI) is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

This edition of Statistics in Focus is partly based on the **European Union Direct Investment Yearbook 1996**, which was compiled by the direct investment team at the Balance of Payments Unit at the Statistical Office of the European Communities (Eurostat).

Gross domestic product (GDP) at market prices represents the final result of the production avtivity of resident producer units. It corresponds to the economy's total output of goods and services less intermediate consumption, plus VAT on products and net taxes on imports excluding VAT.

Foreign direct investment data for the European Union can be obtained from the

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